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No. 04-480

Supreme Court, U.S.
FILED
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In The

Supreme Court of the United States

METRO-GOLDWYN-MAYER STUDIOS INC., et al.,

Petitioners,

v.

GROKSTER, LTD., et al.,

Respondents.

On Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF OF VIDEO SOFTWARE DEALERS ASSOCIATION AS *AMICUS CURIAE* SUGGESTING REVERSAL

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RETAILERS OF INTELLECTUAL PROPERTY: THE COMPETITIVE VOICE OF CONSUMERS, statement on behalf of Video Software Dealers Association, Public Hearings on Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy before the Federal Trade Commission and the Antitrust Division, U.S. Department of Justice, July 2002 27

INTEREST OF *AMICUS CURIAE*

As the trade association representing retailers and distributors in the home video industry, Video Software Dealers Association, Inc. (hereafter "VSDA") respectfully submits this brief as *amicus curiae* in accordance with Supreme Court Rule 37.[1] VSDA's members are retailers and distributors of "home videos" – lawfully made copies of motion pictures and other audiovisual works – offered for rental and sale to the public (both new and used) such that each lawfully made copy may be re-distributed from one person to another, *including redistribution among peers*, independent of copyright owner control.

One of the most successful legal distribution systems for sharing copies of copyrighted works ever created is the $24 billion home video entertainment industry. Its success is not measured merely in profits for the motion picture industry's copyright owners, but more importantly in its creation of an affordable way of enabling the entire family to enjoy a movie and of offering the choice of literally thousands of creative works for an evening's entertainment. Its importance is measured also in the fact that most motion pictures depend on the home video market for their economic success. Indeed, a vast number of motion pictures are produced "straight to video." These are works, including works of independent filmmakers, that would never have been economically feasible if they had depended on the theatrical market.

The seed of the home video industry was planted by this Court's 1908 ruling that copyrights do not include the

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[1] The parties have consented to the filing of this brief. Copies of their respective letters of consent are on file with the clerk. Counsel for a party did not author this brief in whole or in part. No person or entity other than the *Amicus Curiae*, its members, or its counsel made a monetary contribution to the preparation and submission of this brief.

power to control resale prices of copies owned by others, *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). It was nurtured by Congress' codification of that doctrine in the Copyright Act of 1909 (yielding today's codification at 17 U.S.C. § 109(a)). It was brought to fruition by this Court's ruling in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). Today, the home video rental market allows many consumers to locate and share in the possession and private performance of a single lawfully made copy.

The typical VSDA member is embodied in the local video store, a retailer having no standing to enforce the copyrights in the works it rents or sells, but who suffers the impact of infringing reproductions more immediately and more severely than the copyright owner. A nearby merchant selling "bootleg" copies of a film may fulfill demand to watch a particular movie before the non-infringing copies reach the retailer's shelves – copies for which the retailer must pay the copyright owner. In the same manner, unauthorized copies downloaded from the Internet displace sales and rentals of copies lawfully offered by the retailer.

Video retailers' interests are distinct from those of copyright owners in the same way that the Copyright Act draws a sharp distinction between the rights in the copyright and the rights in the copy. 17 U.S.C. § 202. Because the Copyright Act gives owners of lawfully made copies certain rights superior to those of the copyright owners, video retailers are free to engage in creative business enterprises without the consent – and even over the objection – of the copyright owners whose works are embodied in those copies. 17 U.S.C. § 109(a). *Sony*, 464 U.S. at 447 ("[T]he definition of exclusive rights in § 106 . . . is prefaced by the words '*subject to* sections 107 through [122].'" (emphasis added)); *accord* H.R. Rep. No. 94-1476, at 61 (1976) ("[E]verything in section 106 is made

'subject to sections 107 through 118' and must be read in conjunction with those provisions.").

Retailers who compete in the delivery of lawful copies view technological advances as both a threat and an opportunity. They ask this Court, when weighing the threats to exclusive rights from copyright infringement, to weigh just as carefully the threats to freedom of competition and freedom of speech from unauthorized copyright enlargement. *See, e.g., Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994) ("Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible.").

ARGUMENT

I. Unauthorized Peer-to-Peer "File Sharing" Infringes the Exclusive Right of Reproduction

Although Respondents' peer-to-peer systems may be perceived as *sui generis* activity for which either the Court or Congress must fashion new tools, more than one hundred years of jurisprudence is available to address the conduct at issue here. To apply it, the Court must first jettison a number of popular terms that are misnomers in the context of copyright law.

A. No Copies or Phonorecords Are "Distributed" or "Shared" Over Respondents' Peer-to-Peer Systems

1. No copies or phonorecords are distributed

Analysis of Respondents' peer-to-peer systems as a "distribution" issue could lead to unintended results. So-called "peer-to-peer distribution" does not directly involve any "distribution" at all as that term is used in the

Copyright Act. The activity at issue in this case fundamentally involves the *reproduction* of original works.

When a work is downloaded without the authority of the copyright owner or of law, the resulting copy infringes the exclusive right of reproduction. The person who "downloads" a file is merely reproducing it from one tangible medium to another. It makes no difference whether the original itself is an infringing reproduction or a lawfully made copy purchased at a store, or borrowed from a library, or whether the original reproduction is embodied in a videocassette, CD, DVD, flash media, personal computer hard drive, or Internet server hard drive. Nor does it matter whether the original was broadcast over the airwaves, transmitted over cable, performed on a stage or projected onto a theater screen. The legality of the reproduction does not depend on the source or legality of the original, but on the legality of the act of reproducing it.

The exclusive right of *distribution*, in contrast, applies only to the movement of material objects.[2] The exclusive right of distribution in 17 U.S.C. § 106(3) applies only to "copies or phonorecords," both of which are defined in 17 U.S.C. § 101 as "material objects . . . from which the work

[2] The legislative history indicates that Congress intended the right of distribution to be limited to the former right of "publication," explaining:

> Under this provision the copyright owner would have the right to control the first public distribution of an authorized copy or phonorecord of his work, whether by sale, gift, loan, or some rental or lease arrangement. Likewise, any unauthorized public distribution of copies or phonorecords that were unlawfully made would be an infringement. As section 109 makes clear, however, the copyright owner's rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it.

H.R. Rep. No. 94-1476, at 62 (1976).

can be perceived, reproduced, or otherwise communicated." Accordingly, "peer-to-peer distribution" in the present context is a misnomer under the Copyright Act, for nothing is being distributed.[3]

The more general meaning of "distribution" has found its way into some judicial opinions that refer to reproductions over peer-to-peer connections as "distributions,"[4] but cases focusing more carefully on the issue agree that a distribution must be of a tangible object. In *Agee v. Paramount Communs.*, 59 F.3d 317 (2d Cir. 1995), for example, the court declared "meritless" the contention that a satellite transmission to television stations was a distribution. *Id.* at 325. The court observed that although there is no definition of the term "distribution" in the Copyright Act, "[i]t is clear that merely transmitting a sound recording to the public on the airwaves does not constitute a 'distribution,'" and that "distribution is generally thought to require transmission of a 'material object' in which the

[3] The material object onto which an infringing download is reproduced may subsequently be distributed illegally. *Micro Star v. Formgen Inc.*, 154 F.3d 1107, 1109 (9th Cir. 1998) (the defendant "downloaded 300 user-created levels and stamped them onto a CD, which it then sold commercially"). The record below excludes such distribution.

[4] *See, e.g., A&M Records v. Napster, Inc.*, 239 F.3d 1004, 1014 (9th Cir. 2001) (concluding, without explanation, that "Napster users infringe at least two of the copyright holders' exclusive rights: the rights of reproduction, § 106(1); and distribution, § 106(3)"); *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003); *MGM Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154 (9th Cir. 2004). The term "distribution" is used expansively in business to include physical distribution, leasing of theatrical reels and licensing for public performance and reproduction, but the Copyright Act is more precise in its terminology. It limits the exclusive right of distribution to the right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 106(3).

sound recording is fixed: a work that is of 'more than transitory duration.'" *Id.* (citations omitted).

It is imperative that this Court maintain the Copyright Act's distinction. Simply put, if the act of allowing others to reproduce one's own copy by downloading it from the Internet is an act of distribution, then it would stand to reason that the owner of a lawfully made copy could "redistribute" it in that manner without the consent of the copyright owner, and the resulting reproduction would be as of right under 17 U.S.C. § 109(a).[5] Surely Congress did not intend such a result.[6]

2. No copies or phonorecords are shared

Just as peer-to-peer "distribution" is a copyright misnomer, so, too, is "file-sharing." This is simply not a case in which two or more people make use of the same copy or phonorecord. Rather, each file "shared" results in an *additional* copy. This is the key distinction between the conduct at issue in this case and true "sharing" by lending, resale, gift, barter, library loans or video rental.

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[5] Section 109(a) states in part: "Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."

[6] This Court can lend clarity by using the term "distribution" within the confines of its meaning in the Copyright Act, and using a term such as "dissemination" when referring to the spread of the work in general, without regard to the method. This was the approach taken earlier this year by the Eighth Circuit when it employed the more general verb "disseminate" throughout its opinion to describe online peer-to-peer reproduction systems. *In re Charter Communications, Inc.* No. 03-3802, 2005 U.S. App. LEXIS 31 (8th Cir. January 4, 2005). The Eighth Circuit's description of peer-to-peer systems as "disseminating" works allows courts to reserve distribution – the Copyright Act's term of art – to cases involving physical distribution.

A true digital delivery counterpart to physical sharing would require that no new copy be available at any given time, but precisely because modern technology can make digital file sharing truly mimic physical sharing, the term is out of place here. It is already the case that entrepreneurs have found how to effectively "move" a copy from one material object to another in a way that does not infringe the copyright. Although cases are rare in the "analog world," courts in the United States and in Canada have held that the transfer of a work from one medium to another using a technology that leaves only one copy at the end of the process is not a reproduction at all. *C.M. Paula Co. v. Logan*, 355 F. Supp. 189, 190 (N.D. Tex. 1973) (use of acrylic resin "as a transfer medium to strip the printed indicia from the original surface on which it is printed, whereupon the image carrying film is applied to another article"). Presented with similar facts, the Supreme Court of Canada recently reached the same conclusion in *Théberge v. Galerie d'Art du Petit Champlain, Inc.*, [2002] 2 S.C.R. 336.

These courts did not base their holdings on any fair use limitation on the copyright owner's right of reproduction or distribution, but on a finding that the processes did not infringe the reproduction right in the first instance because, at the end of the process, only one copy remained.

This is not the path chosen in the peer-to-peer systems at issue here. These systems involve a *multiplication* of copies, each remaining accessible to be perceived and further reproduced.

B. Reproductions Through the Internet Nevertheless Impact the Exclusive Right of Distribution

Although the reproduction of a work from a source located through the Internet does not involve an act of

distribution, systems that allow infringing reproductions from remote locations may nevertheless impair the exclusive right of distribution because the infringing reproduction supplants the distribution.

When copies are reproduced in a factory and distributed through wholesalers and retailers, the copyright owner exercises the reproduction right at the factory, and exercises (and exhausts) the distribution right at the wholesale level. From that point forward, the continued distribution of the work is generally beyond the control of the copyright owner. 17 U.S.C. § 109(a).

The same ultimate result is achieved when the copyright owner licenses the reproduction by the consumer or retailer. For example, instead of a million copies being licensed for reproduction in a factory and then licensed for distribution and sold to a million consumers, a million consumers may each be licensed to make one reproduction in their own manufacturing facility – their personal computer. At the end of the day, the results are the same: a million lawfully made copies or phonorecords of the work will belong to a million consumers. But in the first case, the copyright owner will have licensed both the right of reproduction and, separately, the right of distribution, while in the second case the license of the right of reproduction to the consumer supplants the need to license the right of distribution. The copy or phonorecord has already reached its destination.

In short, although peer-to-peer systems are not distribution systems, they are decentralized reproduction systems that displace any need for distribution. The work is distributed (published) at the moment it is reproduced by the consumer. Therefore, an illicit reproduction infringes the right of reproduction and, indirectly, the right of distribution.

Copyright holders may, of course, license (or authorize retailers to license) the reproduction of their works through peer-to-peer systems just as readily as they can license reproduction in factories. Moreover, they can license an individual to reproduce a copy or phonorecord without concerning themselves with the source from which the copy is made nor the technology used to make it.[7] Just as certainly, persons who lawfully reproduce their own copies and phonorecords enjoy the right under 17 U.S.C. § 109(a) to distribute those copies without consent of the copyright owner. *See, e.g., United States v. Cohen*, 946 F.2d 430, 434 (6th Cir. 1991) ("[C]opyright law does not forbid an individual from renting or selling a copy of a copyrighted work which was lawfully obtained *or lawfully manufactured by that individual*." (emphasis added)); *United States v. Sachs*, 801 F.2d 839, 842 (6th Cir. 1986).

But just as surely as the licensing of the right of reproduction by the consumer supplants the need for a licensed distribution, so too does the infringing reproduction (the infringing download) impair the copyright owner's right to license reproduction and distribution.

II. The Question Is Whether B < PL

There is no need to treat the peer-to-peer systems at issue here as novelties requiring *sui generis* rules. Secondary liability such as contributory infringement originates in tort law. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d

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[7] As noted in section II-C, below, it is appropriate for courts to ensure that the exclusive right to license reproductions is not enlarged into control over the methods, technology or formats for reproduction and private performance of their works, nor even the *source* of the reproduction, thereby allowing retailers to compete as freely in offering licensed home reproductions as they do now in offering licensed factory reproductions.

259, 264 (9th Cir. 1996). Resolution can be reached by applying existing principles of tort liability. Because copyrights invariably involve expressive materials and monopolies, however, considerations of liability and of potential remedies must themselves conform to First Amendment and antitrust jurisprudence.

This Court charted the course for each of these areas in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). One need only follow that lead, guided by Judge Learned Hand's classic analysis of liability for a boat breaking from its moorings. To paraphrase his language:

> Since there are occasions when virtually anything can be used to infringe copyrights, and since, if it is, it becomes a menace to copyright owners; the duty to provide against resulting infringement is a function of three variables: (1) The probability that its peer-to-peer systems will be used to infringe; (2) the gravity of the resulting injury, if it is; (3) the burden of adequate precautions. Possibly it serves to bring this notion into relief to state it in algebraic terms: if the probability be called P; the injury, L; and the burden, B; liability depends upon whether B is less than L multiplied by P: *i.e.*, whether B is less than PL.

United States v. Carroll Towing Co., 159 F.2d 169, 173 (2d Cir. 1947) (paraphrased).

This Court has taken it as a given that there is a "duty not to infringe" the copyrights of others. *Washingtonian Publishing Co. v. Pearson*, 306 U.S. 30, 40 (1939). The *Sony* Court noted that "vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of

another." *Sony*, 464 U.S. at 435. Secondary liability for copyright infringement is a creature of judicial reasoning which looks beyond the "labels," *id.* at 435 n.17. The labels of direct, contributory and vicarious liability do not describe different offenses, but rather different ways of determining whether one particular offense is actionable. *CoStar Group, Inc. v. LoopNet, Inc.*, 172 F. Supp. 2d 747, 750 (D. Md. 2001) ("[D]irect and contributory infringement 'claims' are not separate claims, but merely separate theories of copyright liability."), *aff'd*, 373 F.3d 544 (4th Cir. 2004).

Comparing Respondents' peer-to-peer systems to other sets of facts, such as the swap-meet in *Fonovisa* and the Betamax recorder in *Sony*, Judge Hand's formulation applies exceptionally well no matter what the label.

First, people can come to swap-meets to sell infringing reproductions just as they can use Betamax recorders and Respondents' peer-to-peer systems to make infringing reproductions. The three cases are identical in this regard. The products or services are all capable of infringing uses. But they are also identical with regard to lawful uses. Like swap-meets and Betamax recorders, peer-to-peer services are also "capable of substantial noninfringing uses" as that term is used in *Sony*. They can provide a valuable lawful public benefit. Millions of people buy and sell used merchandise every day. Lawful broadcasts can be recorded, without infringement, by millions. Millions can lawfully reproduce an enormous array of works using their personal computers connected to the Internet, and including through use of Respondents' systems. Enjoining any one of the three systems would deny law-abiding citizens the freedom to engage in lawful enterprises.

But herein rests one crucial distinction: The entire swap-meet did not have to be enjoined because the infringing use of the swap-meet could be enjoined (or punished) without seriously burdening the noninfringing uses. In

contrast, the Betamax recorder's core function was to make reproductions, and it would have been impossible to enjoin the manufacture and sale of a Betamax recorder used for infringing reproductions without also enjoining the manufacture and sale of Betamax recorders used for noninfringing reproductions. This distinction goes to the core question of whether the burden of enjoining the infringing reproduction comes at too high a cost because, to be effective, the injunction would necessarily have too broad a reach.

Second, because the non-infringing uses involve constitutionally protected expression, completely enjoining the swap-meet, the Betamax recorder or Respondents' peer-to-peer systems would, even as an incidental content-neutral result, abridge First Amendment rights and require, just as the Court did in *Sony*, closer scrutiny concerning the broader burden. (We examine this more fully when we consider remedies in section B, below.)

Third, because even a partial injunction could have the effect of giving copyright owners control over a particular service, system or product that falls outside the scope of their copyrights, an injunction could have the unintended effect of enlarging the copyright and impairing competition beyond the copyright monopoly.[8] (We examine this more fully when we consider remedies in section C, below.)

Thus, to find where Respondents' peer-to-peer systems fit along the continuum from swap-meet liability (*Fonovisa*) to tape recorders with substantial noninfringing uses

[8] Petitioners acknowledge this Court's concern in *Sony* that the imposition of liability would enable copyright owners to "extend their copyright monopolies over a handful of particular works to an unrelated area of commerce." Petition for Certiorari at 18 (citing *Sony*, 464 U.S. at 440-41 & 441 n.21).

(*Sony*), one need only apply that formulation laid out more than a half century ago (section A, below), moderated by First Amendment principles (section B) and antitrust considerations unique to copyrighted works (section C).

A. Burden of the Duty Not To Infringe

Applying Judge Hand's formulation to the facts in *Sony*, even though copyright infringement was certainly occurring, the burden (B) of providing the requested relief was simply too great. Because there was nothing Sony could do to reduce infringing uses of the Betamax short of halting production, the Betamax recorder would have to have been enjoined completely or not at all. If enjoined, the burden on the defendant would have been complete, but the harm of copyright infringement would have been replaced with the harm to the rights of other copyright owners and consumers to benefit from the noninfringing uses, plus the harm in allowing copyrights to totally control products outside of the copyright. Thus, despite the proven probability (P) and gravity (L) of harm, the only available remedy would have replaced one harm with another, burdening the defendant, competing copyright owners and the public at large. The resulting relationship, $B > PL$, required that relief be denied.

In the contrasting case of the swap-meet, the source material at issue consisted of infringing reproductions, the sale of which was an infringing distribution. Within an audience of shoppers who could just as easily purchase infringing or noninfringing reproductions, it was quite possible to exclude the purveyors of infringing reproductions without seriously burdening the purveyors of noninfringing reproductions. Shoppers would no longer be able to purchase infringing reproductions – to which they were never entitled – but could continue freely to purchase

noninfringing reproductions and other merchandise without any restriction.

Applying Judge Hand's formulation, the burden, B, was not great. The swap-meet provider already chose the vendors permitted to have booths, and under what conditions. Requiring the swap-meet proprietor to make and enforce one more condition (prohibiting the sale of infringing reproductions) was reasonable. Nor would the law-abiding public's right to exchange lawfully made copies be burdened. Given the proven probability (P) and gravity (L) of harm from copyright infringement, compared with the slight burden on the swap-meet operator (B), the result was clearly B < PL. Thus, it was appropriate to require the swap-meet operator to undertake the burden of reducing the probability and gravity of harm – the incidence of copyright infringement.

In the instant case, the probability of copyright infringement (P) and the gravity of harm of copyright infringement (L) are uncontested, but the magnitude of the burden of any particular remedy (B) remains the core issue for resolution. Also, as we discuss in the next two sections, courts must consider whether the available remedies (the burdens) would have the effect of also burdening First Amendment rights of innocent bystanders (and if so, whether that burden is nevertheless permissible as a content-neutral regulation), or of enlarging the copyright monopoly beyond its statutory limits, thereby burdening freedom of competition. Neither the Ninth Circuit nor the Seventh Circuit in a similar case, *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003), considered these important factors.

The Ninth Circuit erred twice in its reasoning: (1) it confused the standards for vicarious liability with those for contributory liability, ignoring the fact that both forms of liability are merely different theories of general tort

liability in which one actor can be held responsible for the tort of another; and (2) in attempting to follow *Sony*, it failed to differentiate between an injunction aimed at shutting down the forum for the infringing activity (the Betamax in *Sony*) and an injunction aimed at suppressing the infringing activity taking place at the forum (the swap-meet in *Fonovisa*). In the former, the burden will tend to be excessive where substantial noninfringing uses would also be eliminated. In the latter, if a remedy can be tailored to have only a slight burden on lawful conduct, it may not be excessive and, if not, liability for failing to take on the appropriate burden may be imposed.

1. The ability to "control" or "supervise" are factors in assessing the duty of care

When properly viewed, examination of the defendant's "control" or level of "supervision" is not for the purpose of conforming to rigorous definitions of "contributory" or "vicarious" liability. Rather, the fundamental question is whether the law will impose a duty of care sufficient *either* to punish the infringing conduct *or* to require that affirmative steps be taken to prevent it.

The *respondeat superior* line of reasoning that gave rise to vicarious liability, for example, was simply a question of whether one's *de jure* control over an employee was sufficient to impose liability for the employee's failure. As the *Fonovisa* ruling made clear, the confines of the *respondeat superior* doctrine were too restrictive, yielding to the broader question of whether it was within the defendant's power to prevent the infringement from occurring.

The contributory liability line of cases simply reweighs the burden when the defendant has no authority over the conduct of others but nevertheless has power over the infringing activity (*i.e.*, power to prevent it from occurring), notwithstanding lack of control over the infringers. Judge

Hand's formulation applies just the same. If the defendant has no legal authority over the infringers but nevertheless has actual power to prevent the infringement from taking place, the question becomes whether a requirement that the defendant exercise that power is too great a burden (B) when compared to the probability (P) and gravity (L) of the harm.

Under either label, the duty of care arises alongside the power to prevent the infringement. When one has legal control over the conduct of the infringers (*e.g.*, the legal authority to direct one's own employees not to infringe, or by contract to tell infringers they are not welcome at the swap-meet) the law will be more willing to impose a burden to do so. Likewise, where the defendant has the power to control the infringing conduct itself (*e.g.*, by changing the means of infringement, such as by changing software features or swap-meet regulations), the burden may be perceived as small in relation to the probability and gravity of harm. The fundamental question is whether it is within the defendant's power to prevent the infringement.

For example, if Respondents have at their disposal the ability, without undue burden, to modify their software to reduce the incidence of infringement, their failure to do so would be a failure in their duty not to infringe. But the record indicates that the courts below never explored whether Respondents had this ability, much less whether it was reasonable to make them use it. Indeed, the district court held that the ability to install safeguards to prevent infringement was "immaterial" since it related to reduction of infringement in general and not to specific acts of infringement. *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1045 (C.D. Cal. 2003). The Ninth Circuit was content to find that merely because Respondents' systems were not *currently* configured to distinguish between works that

could or could not be lawfully reproduced, or otherwise reduce the incidence of infringement, it would inquire no further.[9] It turned a blind eye to the availability of a cure for the infringement and permitted Respondents to do so as well.

Ironically, the Ninth Circuit's refusal to examine the available remedies absent a finding of liability echoes the *Sony* dissent. The dissent had criticized the majority's examination of the cost of the remedy as a factor in determining liability:

> Such reasoning, however, simply confuses the question of liability with the difficulty of fashioning an appropriate remedy. It may be that an injunction prohibiting the sale of VTR's would harm the interests of copyright holders who have no objection to others making copies of their programs. But such concerns should and would be taken into account in fashioning an appropriate remedy once liability has been found.

Sony, 464 U.S. at 494, Blackmun, J., dissenting. The majority, in contrast, followed Judge Hand's approach and intentionally connected the question of liability with the available remedies. It concluded that, in light of the substantial non-infringing uses, the duty that the plaintiffs asked be imposed was too great compared to the probability and gravity of the infringement.[10]

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[9] Had the *Fonovisa* court followed this logic, it would only have examined whether the swap-meet operator's operation was currently configured to prevent infringement. But although it was not, the *Fonovisa* court found liability because the swap-meet operator refused modest steps to reconfigure its operation – an unburdensome duty that the law imposed upon notice of infringing activity within its right and ability to supervise.

[10] Justice Blackmun suggested that remedies short of a complete injunction could be considered once liability was established, but unlike this case, the plaintiffs in *Sony* had sought nothing short of a complete

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Unlike the Betamax videocassette recorder, however, Respondents' software services directly assist users seeking to make reproductions to locate users seeking to make originals available for reproduction. Unlike the public performances available for reproduction in *Sony*, the originals available for reproduction here have no purpose other than facilitating reproduction.[11]

Imposition of a burden to help prevent the copyright infringement from occurring is not unusual. For example, a library is not responsible if one of its patrons makes an infringing reproduction from a borrowed book, a music retailer is not liable if one of its customers commercially reproduces a purchased CD, nor is a video retailer responsible if someone who rented the video makes an infringing public performance of the work embodied in it. Yet, even in such innocuous every-day scenarios, the supplier of the original may be held liable if it supplies it with knowledge of the patron's infringing purpose. *A&M Records v. Abdallah*, 948 F. Supp. 1449 (C.D. Cal. 1996) (selling blank cassette tapes of precise length of work to be recorded on them by the primary infringer); H.R. Rep. No. 94-1476, at 61 (1976) (hypothetical example of renting a lawful videotape with knowledge that it would be used to infringe the copyright).

injunction. In this case, the Petitioners seek only to enjoin the infringing activity, not the entire peer-to-peer systems. First Amended Complaint, at 16.

[11] "Under a decentralized index peer-to-peer file-sharing model, each user maintains an index of *only those files that the user wishes to make available to other network users*." *Grokster*, 380 F.3d at 1159 (emphasis added).

2. Remedies that preserve the noninfringing uses are permissible

It is said that for every legal right there is a legal remedy when that right is infringed, *Marbury v. Madison*, 5 U.S. 137 (1803). The problem in *Sony* was that the remedy being sought – a complete ban on sales of the Betamax machine – would itself infringe the rights of others. In such case, the remedy (and with it the liability) could be denied. In effect, the burden (B) of completely enjoining the Betamax recorder was greater than even a high probability and gravity of copyright infringement (PL). In this case, in contrast, *if* Respondents' software can be modified to make infringing use less probable, it may be feasible to lessen the use of Respondents' peer-to-peer systems for infringing reproductions without burdening lawful reproductions.

The Copyright Act, at 17 U.S.C. § 502(a), gives courts ample discretion to fashion an appropriate remedy.[12] In *Sony*, the potential remedy was limited. The plaintiffs sought a complete ban on the recording function and, in any event, a lesser remedy would have given the copyright owners power over a device beyond the congressionally established limits of the copyright. In this case, Petitioners have sought no more than an injunction of the infringing activity itself. Because the district court considered inquiry into the possibility of a more limited remedy to be "immaterial," there is as yet no record of whether there are choices among lesser remedies. If there are indeed remedies available that are more narrowly tailored to

[12] "Section 502(a) gives the district court the power to issue an injunction to prevent infringement of 'a copyright.' The power to grant injunctive relief is not limited to registered copyrights, or even to those copyrights which give rise to an infringement action." *Olan Mills Inc. v. Linn Photo Co.*, 23 F.3d 1345, 1349 (8th Cir. 1994) (citation omitted).

eradicating the infringing uses without seriously burdening the lawful uses, they should be considered. For purposes of Judge Hand's formulation, a more appropriate burden would be carried more fully by Respondents and less by those making substantial non-infringing uses. If feasible, such a remedy would be re-weighed against the probability and gravity of copyright infringement without the remedy.

The Betamax recorder was not infringing precisely because no set of circumstances was presented to the Court under which the B > PL equation resulting from a complete injunction could be changed to B < PL. The burden would be on Sony to cease production, on competition by giving copyright owners control over whether such recorders could exist and how they would operate, on consenting copyright owners denied access to greater audiences, and on the law-abiding public that wished to use them for constitutionally protected purposes. Here, the record below lacks any indication whether the admittedly lawful uses of Respondents' systems could be preserved while imposing a duty on Respondents to take reasonable measures to reduce the incidence of copyright infringement. The district court should be given an opportunity to determine whether relief from the infringing uses may be attainable without over-burdening Respondents, the lawful, constitutionally protected uses to which their peer-to-peer systems are placed, or the competitive benefits of Respondents' technology.

B. Content-Neutral Remedies Are Permitted Despite First Amendment Considerations

Although the *Sony* Court did not specifically discuss First Amendment rights, the opinion brims with First Amendment principles. The foremost of those is the concern that copyright owners wishing to stifle a particular use not

also stifle the voices of copyright owners who wish to allow the public to engage in that use notwithstanding their right, under the Copyright Act, to prohibit it.

The Court noted the district court's finding that an injunction "would deprive the public" of the ability to make use of the expression of consenting copyright owners. 464 U.S. at 427 (quoting the district court). The preservation of the right to engage in substantial noninfringing use was not just to prevent expansion of copyrights beyond their limits, but also "because [the complaining copyright owners] have no right to prevent other copyright holders from authorizing it for their programs." *Id.* at 442. Without regard to fair use, *Sony* pointed out that if some copyright owners "welcome the practice" of using the Betamax to copy their programs, then "the business of supplying the equipment that makes such copying feasible should not be stifled simply because the equipment is used by some individuals to make unauthorized reproductions" of the programs of other copyright owners. *Id.* at 446.

If copyrights did not exist, authors of expression protected by the First Amendment would be powerless to prevent strangers from reproducing it. Copyright law gives authors that power, and this Court has properly held that any First Amendment concerns over an author's power to prevent copying of the author's own works are accommodated by the limitations and exceptions contained in the Copyright Act itself. *Eldred v. Ashcroft*, 537 U.S. 186 (2003). But *Sony* recognized that it is an entirely different matter to permit copyright owners to suppress reproduction of the works of others. To allow them to do so "would inevitably frustrate the interests of [other copyright owners] in reaching the portion of their audience that is available only through time-shifting." 464 U.S. at 446.[13]

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[13] Although, in *Aimster*, the Seventh Circuit engaged in a finer-grained analysis of the burdens, it also failed to properly assess the

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Given that peer-to-peer reproduction systems accommodate speech both of authors who wish their speech to be reproduced and of those who do not, the burden analysis on remand should include consideration of the First Amendment burden imposed on copyright owners who desire that their speech be reproduced, as well as on the retailers for, and audiences of, those copyright owners.

Recognition of the First Amendment interests does not end the analysis. Rather, the next point of inquiry is whether the infringing speech can reasonably be suppressed without unduly suppressing the non-infringing speech protected by the First Amendment.

Sony had no occasion to consider this question because "a finding of contributory infringement would *inevitably* frustrate" the desire of approving broadcasters to expand their audiences through time-shifting. 464 U.S. at 446 (emphasis added). There was simply no means of enjoining sales of the Betamax recorder to protect the copyrights of the complaining copyright owners without also suppressing the freedom of expression of copyright owners who desired wider audiences gained through time-shifting.[14]

First Amendment interests at stake and relied on *Eldred* to dismiss those concerns summarily. *Aimster*, 334 F.3d at 656. In doing so, it failed to recognize that the First Amendment interests were not of those who wished to reproduce the expression of objecting copyright owners, as was the case in *Eldred*, but the interests of the approving copyright owners and their audiences – and the intermediaries between them – to have their expression repeated.

[14] This Court has made clear that private parties are powerless to require the courts to impose sanctions that would be unconstitutional if carried out by the government directly. *Shelley v. Kraemer*, 334 U.S. 1, 22 (1948) ("The Constitution confers upon no individual the right to demand action by the State which results in the denial of equal protection of the laws to other individuals.").

The teaching of *Sony* is not that articles capable of substantial non-infringing uses may never be enjoined, but that if faced with a choice between a total injunction or no injunction at all, the rights of approving copyright owners are superior to those of the disapproving. *Id.* at 446. The Constitution is permissive in how large a copyright Congress may confer, but the First Amendment nevertheless prevents the law from requiring all copyright holders to be equally restrictive in their licensing.[15]

The First Amendment protection given to permissive copyright holders and their licensees is not immune from limitation, however. Copyright protection is content-neutral regulation that furthers a significant governmental interest, thereby meeting the first two tests as summarized in *Regan v. Time, Inc.*, 468 U.S. 641, 648 (1984). If Respondents' software services contribute to the infringement of Petitioners' copyrights, the only real question remaining in evaluating the magnitude of the burden is whether a court could provide a remedy, such as injunctive relief, and still "leave open ample alternative channels for communication of the information." *Id.* (citations and internal quotation marks omitted). The Ninth Circuit erred in not allowing room for this analysis.

The lower courts should give an intermediate level of scrutiny to any remedy for copyright infringement that will incidentally infringe on the First Amendment rights of others. *Turner Broad. Sys. v. FCC*, 512 U.S. 622, 662

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[15] Power to suppress the noninfringing works of other authors is certainly beyond the traditional contours of copyright protection, *Golan v. Ashcroft*, 310 F. Supp. 2d 1215, 1220 (D. Colo. 2004) (citing *Eldred*, 537 U.S. at 191), and requires closer scrutiny. To paraphrase this Court: "When we balance the Constitutional rights of [copyright] owners [] against those of the people to enjoy [First Amendment rights], we remain mindful of the fact that the latter occupy a preferred position." *Marsh v. Alabama*, 326 U.S. 501, 510 (1946).

(1994) ("[T]he appropriate standard by which to evaluate the constitutionality of must-carry is the intermediate level of scrutiny applicable to content-neutral restrictions that impose an incidental burden on speech." (citations omitted)); *see also Ward v. Rock Against Racism*, 491 U.S. 781, 798-799 (1989); *Capital Cities Cable, Inc. v. Crisp*, 467 U.S. 691, 696-697 (1984).

These principles must guide the selection of any remedy for copyright infringement that would burden the speech of other copyright owners, their audiences or their intermediaries such as retailers. For example, even though video retailers may be confident that the copies they rent and sell are not likely to be infringing, they nevertheless undertake the burden of exercising due care that those copies do not infringe copyrights, even if it requires indemnification from their suppliers, insurance against errors and omissions or additional vigilance and staff training. The same is true if they offer to consumers the option of downloading a copy: the prudent retailer will not rest on the substantial non-infringing use of their service, but will make sure that each copy offered for reproduction may lawfully be downloaded.

C. As in *Sony*, Remedies that Enlarge the Copyright May Be Too Burdensome

A fundamental basis for reversing the appellate court in *Sony* was that to affirm the holding "would enlarge the scope of respondents' statutory monopolies to encompass control over an article of commerce that is not the subject of copyright protection," thereby expanding their control "beyond the limits of the grants authorized by Congress." *Sony*, 464 U.S. at 421. Accordingly, if Petitioners can establish that Respondents' systems are a proximate cause of infringement of their copyrights, a core question becomes whether a remedy can be fashioned that would

concurrently prevent the infringement without enlarging the scope of the copyrights in their works. *Sony*, 464 U.S. at 432 n.13.

Two principles should guide the lower courts concerning appropriate remedies: first, that the copyright in each individual work corresponds solely to that work; and second, that the foundation for the first sale doctrine should carry over, in full force, to digital dissemination.

1. Royalty-based remedies would unlawfully equalize all works at their average value

The *Sony* Court summarily rejected the suggestion by the Ninth Circuit that a continuing royalty pursuant to a judicially created compulsory license might be an acceptable remedy. 464 U.S. at 441 n.21. Its reasoning was that such a remedy would effectively confer on the complaining copyright owners "the exclusive right to distribute VTR's simply because they may be used to infringe copyrights." *Id.* Any similar suggestion here should be rejected for that reason, and also because it would tend to equalize the value of all works.

As the *Sony* Court noted, "the Court has always recognized the critical importance of not allowing the patentee to extend his monopoly beyond the limits of his specific grant." *Id.* at 441.

Additionally, it would burden the entire system, in effect compelling those who are not infringing copyrights to pay for a remedy for the infringement by others, and would also burden copyright owners who do not wish to charge compensation for the reproduction of their works by means of such systems. *See, e.g., Sony*, 464 U.S. at 446 n.28 (explaining the legitimacy of a copyright owner's choice of not charging for a license, whether for economic or non-economic reasons).

Finally, all copyrights are equal in the eyes of the law. The author of a minor work such as a school child's homework assignment, therefore, would be entitled to just as much compensation as the author of a major motion picture, regardless whether the market would assign the same value to both works. In effect, it would enlarge the value of less desirable works by borrowing from the strength of the more desirable works. It would force consumers who wish to download "Gone With The Wind" to also subsidize "Getting Gertie's Garter." *United States v. Loew's, Inc.*, 371 U.S. 38, 48 n.6 (1962); *see also United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948); *MCA TV, Ltd. v. Public Interest Corp.*, 171 F.3d 1265 (11th Cir. 1999). The same principles would apply if court-ordered injunctive relief reached the same results.

The value of competition in the delivery of copyrighted works cannot be underestimated. Generally, only one work can command a consumer's attention at any given time, and in the case of motion pictures, the required monopolization of the consumer's time is nearly two hours. In the case of public performances, the copyright owner competes to have its programming selected by the licensee (such as a theater or broadcaster), but the public's selection will be limited to what a given theater or broadcaster chooses to perform in any given venue at any given time.[16]

Home video retailers offering works on a title-by-title basis enable copyright owners to compete more directly on the merits of each title. Each copyrighted work competes with every other copyrighted work in persuading the retailer to spend its "open to buy" dollars on a given selection, thereby driving down wholesale prices. If all

[16] *See, e.g., Sony*, 464 U.S. at 426 (quoting from findings of the District Court, 480 F.Supp., at 454: "Access to the better program has also been limited by the competitive practice of counterprogramming.").

retailers paid the same price for every motion picture, as would be the net effect of a royalty on the means of dissemination, the most heavily promoted works might benefit, but copyright owners could not gain any advantage by trying to offer their works at a more competitive price, nor would they be able to seek a greater reward for the costly epic over a minor work.

The selected remedy, if any, should preserve the ability of each copyrighted work to compete with every other work, including on the basis of wholesale and retail pricing.[17]

2. Remedies must preserve the principles of the first sale doctrine

Nearly one hundred years ago, the committee of the United States Congress that recommended codification of the judicially created first sale doctrine stated that "it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale." H.R. Rep. No. 2222 (1909). Congress in effect agreed with this Court's holding in *Bobbs-Merrill* that the apparent plenary "sole right of vending" conferred on the copyright owner was in fact limited, and did not extend so far as to control resale markets and other redistribution of copies once title vested in someone else.

[17] *See, e.g.*, RETAILERS OF INTELLECTUAL PROPERTY: THE COMPETITIVE VOICE OF CONSUMERS, statement on behalf of Video Software Dealers Association, Public Hearings on Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy before the Federal Trade Commission and the Antitrust Division, U.S. Department of Justice, July 2002, available at http://www.ftc.gov/os/comments/intelpropertycomments/0207mitchell.pdf.

Similarly, the Copyright Act makes clear that the rights of the copyright owners are distinct from the rights of owners of copies. 17 U.S.C. § 202. In keeping with principles such as these, it is crucial that remedies imposed to reduce the probability or gravity of harm from copyright infringement not increase the probability or gravity of harm from the suppression of competition or enlargement of a copyright owner's power beyond the bounds of the copyright grant. To that end, we respectfully suggest that courts broaden their focus to include the following considerations:

First, remedy selection should be undertaken with care to avoid imposition of burdens that go beyond the prevention and detection of copyright infringement, or the identification of the work (including its authors and copyright owners). For example, the imposition of any "digital rights management" remedy should be solely for the protection of copyrights, and not serve as a technological means of circumventing the limitations on the copyright, including those provided in 17 U.S.C. §§ 107-122.

Second, the privacy concerns of law-abiding citizens should be respected. For example, Congress enacted the Video Privacy Protection Act (18 U.S.C. § 2710) to give consumers the assurance that only under the most exceptional circumstances would any record of their movie-viewing preferences be made public. Video retailers value their customers' privacy as a right in itself, and also value their customers' privacy as a competitive trade secret. No remedy should require retailers, who are often in direct competition with their suppliers, to have to divulge the identities of their customers who reproduce works by means of authorized downloading.

Third, no remedy should impair the right of the owner of a lawfully made copy or phonorecord to enjoy the full reach of that person's rights to privately perform the work

from that copy, or under 17 U.S.C. § 109(a), to redistribute that copy. While it may be feasible to impose technological restrictions that prevent a lawfully made copy from being reproduced through the Internet, the objective of any such restriction should be limited so as to exclude the possibility that the copyright owner could render a lawfully made copy incapable of being performed privately or on the consumer's player of choice, or incapable of being redistributed for an indefinite period of time by an indefinite number of owners of that copy. The copyright owner has no exclusive right to perform works privately, nor any right to prevent the rental of audiovisual works or the transfer of title in a copy or phonorecord from one person to another. Courts should not be empowered to give them any such control as part of a remedy for copyright infringement, since only Congress is authorized to define the scope of copyrights.

Finally, although technological solutions may hold promise for reducing the probability and gravity of harm from copyright infringement, any court-imposed technological remedy should leave ample room for competition among technology solutions. Appropriate technology-neutral specifications may be in order, but they should allow persons other than the copyright owner to select the Internet portals, operating systems, media players, codecs (compression/decompression algorithms), accountability measures and digital rights management mechanisms of their own choice, such that those may, in turn, compete freely with each other without interference from or control by the copyright owner.

CONCLUSION

There is a duty not to infringe. It is undisputed that Respondents' peer-to-peer systems are used to make infringing reproductions. Under these circumstances,

whether Respondents' duty not to infringe requires that they be burdened with reducing the probability and gravity of harm from such infringing use requires careful analysis of the effectiveness and unintended consequences of any contemplated burdens. The potential burden on noninfringing speech and on competition must also be weighed.

Because the courts below failed to inquire into any available remedies, they also failed to properly balance the relevant harms, leaving no room to consider the reasonableness of imposing a duty to help prevent infringement. The Ninth Circuit's ruling should be reversed, and the case remanded for consideration of whether, without unduly burdening the First Amendment rights of authors who wish to do so to make their works available for reproduction by others using peer-to-peer systems, without unduly burdening the audience for – or intermediaries of – such authors, without enlarging the scope of Petitioners' copyrights such that they may be leveraged into control over methods for the reproduction of works into copies and phonorecords, the distribution of lawfully made copies or phonorecords, the rendering of private performances of works, or the competing systems for compression, management, transmission, and copyright protection for those works, it may require Respondents to institute measures designed to limit the use of their software services for infringing purposes.

Respectfully submitted,

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